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**PERMISSIBLE MARKETS PROJECT**  
**SUMMARY OF MONETARY TRANSPARENCY**  
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**Prepared for**

**CalPERS**

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# MONETARY TRANSPARENCY SUMMARIES 2003

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## SUMMARY TABLE OF COUNTRY RATINGS 2003

Country	Combined Overall Score <sup>a</sup>	Monetary Transparency Score <sup>b</sup>	Fiscal Transparency Score <sup>b</sup>
Argentina	<b>6.75</b>	<b>3.50</b>	<b>3.25</b>
Brazil	<b>7.75</b>	<b>3.75</b>	<b>4.00</b>
Chile	<b>8.25</b>	<b>4.25</b>	<b>4.00</b>
China	<b>3.75</b>	<b>2.25</b>	<b>1.50</b>
*Colombia	<b>7.00</b>	<b>4.00</b>	<b>3.00</b>
Czech Republic	<b>8.75</b>	<b>4.75</b>	<b>4.00</b>
Egypt	<b>4.50</b>	<b>2.50</b>	<b>2.00</b>
*Hungary	<b>8.50</b>	<b>4.50</b>	<b>4.00</b>
India	<b>6.75</b>	<b>3.50</b>	<b>3.25</b>
Indonesia	<b>5.75</b>	<b>3.25</b>	<b>2.50</b>
Israel	<b>7.00</b>	<b>3.75</b>	<b>3.25</b>
Jordan	<b>4.75</b>	<b>2.75</b>	<b>2.00</b>
Malaysia	<b>6.50</b>	<b>3.25</b>	<b>3.25</b>
Mexico	<b>8.00</b>	<b>4.25</b>	<b>3.75</b>
Φ Morocco	<b>5.00</b>	<b>2.00</b>	<b>3.00</b>



Country	Combined Overall Score	Monetary Transparency Score	Fiscal Transparency
Pakistan	<b>5.00</b>	<b>2.50</b>	<b>2.50</b>
Peru	<b>7.25</b>	<b>4.00</b>	<b>3.25</b>
Philippines	<b>7.25</b>	<b>3.75</b>	<b>3.50</b>
* Poland	<b>8.25</b>	<b>4.25</b>	<b>4.00</b>
Russia	<b>6.00</b>	<b>3.25</b>	<b>2.75</b>
South Africa	<b>7.75</b>	<b>4.25</b>	<b>3.50</b>
ΦSouth Korea	<b>7.75</b>	<b>4.00</b>	<b>3.75</b>
Sri Lanka	<b>6.25</b>	<b>3.25</b>	<b>3.00</b>
Taiwan	<b>6.75</b>	<b>3.75</b>	<b>3.00</b>
Thailand	<b>6.25</b>	<b>3.50</b>	<b>2.75</b>
Turkey	<b>7.00</b>	<b>4.00</b>	<b>3.00</b>
Venezuela	<b>4.75</b>	<b>2.50</b>	<b>2.25</b>

#### Notes

- a** The combined score for transparency is based on a maximum potential score of 10.
- b** The scores for both monetary and fiscal transparency are based on a maximum potential score of 5.
- \*** The independent assessment of fiscal transparency for this country is available via the *eStandardsForum.com* website.
- Φ** The independent assessment of monetary transparency for this country is available via the *eStandardsForum.com* website.



## MONETARY TRANSPARENCY: RATINGS BREAKDOWN

Country	Score <sup>6</sup>	Section I	Section II	Section III	Section IV
Argentina	3.50	● ● ●	● ● ●	● ● ● ●	● ● ● ●
Brazil	3.75	● ● ●	● ● ● ●	● ● ● ●	● ● ● ●
Chile	4.25	● ● ● ●	● ● ● ● ●	● ● ● ●	● ● ● ●
China	2.25	● ●	● ● ●	● ●	● ●
Colombia	4.00	● ● ● ●	● ● ● ●	● ● ● ●	● ● ● ●
Czech Republic	4.75	● ● ● ● ●	● ● ● ●	● ● ● ● ●	● ● ● ● ●
Egypt	2.50	● ●	● ●	● ● ●	● ● ●
Hungary	4.50	● ● ● ●	● ● ● ●	● ● ● ● ●	● ● ● ● ●
India	3.50	● ● ●	● ● ●	● ● ● ●	● ● ● ●
Indonesia	3.25	● ● ●	● ● ● ●	● ● ●	● ● ●
Israel	3.75	● ● ● ●	● ● ●	● ● ● ●	● ● ● ●
Jordan	2.75	● ● ●	● ●	● ● ●	● ● ●
Malaysia	3.25	● ● ●	● ● ●	● ● ● ●	● ● ●
Mexico	4.25	● ● ● ●	● ● ● ●	● ● ● ● ●	● ● ● ●



<b>Pakistan</b>	<b>2.50</b>	● ● ●	● ●	● ●	● ● ●
<b>Peru</b>	<b>4.00</b>	● ● ● ●	● ● ● ●	● ● ● ●	● ● ● ●
<b>Philippines</b>	<b>3.75</b>	● ● ● ●	● ● ● ●	● ● ● ●	● ● ●
<b>Poland</b>	<b>4.25</b>	● ● ● ●	● ● ● ●	● ● ● ● ●	● ● ● ●
<b>Russia</b>	<b>3.25</b>	● ● ●	● ● ●	● ● ● ●	● ● ●
<b>South Africa</b>	<b>4.25</b>	● ● ● ●	● ● ● ● ●	● ● ● ●	● ● ● ●
<b>Sri Lanka</b>	<b>3.25</b>	● ● ● ●	● ● ●	● ● ● ●	● ●
<b>Taiwan</b>	<b>3.75</b>	● ● ●	● ● ● ●	● ● ● ●	● ● ● ●
<b>Thailand</b>	<b>3.50</b>	● ● ● ●	● ● ●	● ● ● ● ●	● ●
<b>Turkey</b>	<b>4.00</b>	● ● ● ●	● ● ● ●	● ● ● ●	● ● ● ●
<b>Venezuela</b>	<b>2.50</b>	● ●	● ●	● ● ●	● ● ●



## Notes

- 1. Section I: Clarity of Roles, Responsibilities, and Objectives of Central Banks**
- 2. Section II: Open Process for Formulating and Reporting Monetary Policy Decisions**
- 3. Section III: Public Availability of Information on Monetary Policy**
- 4. Section IV: Accountability and Assurances of Integrity by the Central Bank**
- 5. Breakdowns for South Korea and Morocco are available via the *eStandardsForum.com* website.**
- 6. The score is an arithmetic average of the number of points awarded for each section. The maximum possible score is 5.**
- 7. The number of points awarded for each section correspond to the following designations:**
  - No Compliance**
  - Intent Declared**
  - Enacted**
  - Compliance in Progress**
  - Full Compliance**





# ARGENTINA



## COMPLIANCE RATINGS

<i>Monetary transparency</i>	2003	2002
Clarity of roles	●●●	●●●
Open decision process	●●●	●●
Availability of information	●●●●	●●●●
Central bank accountability	●●●●	●●●
<b>Score</b>	<b>3.50</b>	<b>3.00</b>

## OUTLOOK & COMMENTARY

Argentina will continue to improve its monetary transparency standards. The central bank's current success in shifting from a passive to an active role in designing monetary policy will likely be consolidated in 2004, in order to achieve the goal of having a fully operational inflation-targeting framework by 2005.

Until the inflation-targeting system becomes fully operational, one of the main areas of weakness will remain the continuous changes in the regulatory framework, which may diminish its transparency. Decisions taken by the new Inflation Targeting Committee need to be made available to the public. Equally important, the role of the Financial System Restructuring Unit in banking reform will have to be closely followed to assess if central bank independence is being undermined.



## EXECUTIVE SUMMARY

### 3.50 Enacted

Argentina has made important improvements in its monetary transparency policies in 2003. The Central Bank of Argentina (BCRA) is a self-governing body of the national government, and its objectives and responsibilities are clearly established in its charter and the Financial Institutions Law. Following the 2001 economic crisis, and the abandonment of the currency board, the BCRA has regained an active role in monetary policymaking.

Argentina subscribes to the IMF's Special Data Dissemination Standard (SDDS), and meets its standards for the release of a range of monetary and fiscal information. In 2003, the central bank has improved the periodicity and reliability of its information. The BCRA publishes a monthly *Monetary Report* with information on monetary policy developments and the detailed financial position of the central bank. Information on monetary indicators is also publicly available through the BCRA's daily report.

During this year, the BCRA has been going through a transition period from an exchange rate anchor to a monetary anchor, with the ultimate goal of establishing a fully operational inflation-targeting framework by 2005. In addition, under the newly appointed president, BCRA's autonomy has been reinforced and its capacity to formulate monetary policy has been strengthened.

At present, reform of the banking sector, which was highly affected by the economic crisis, is one of the outstanding reforms to restore the regular functioning of the financial system. The Financial System Restructuring Unit (URSF) was created in 2002, but no progress has been made since then. The URSF will be responsible for defining a strategy for restructuring the financial system, giving it the power to determine how public banks should be restructured and which private banks should remain open and which should be sold or merged.

Argentina's overall score has improved from 3.00 in 2002 to 3.50.





# BRAZIL



## COMPLIANCE RATINGS

<i>Monetary transparency</i>	2003	2002	2001
Clarity of roles	●●●	●●●	●●●●
Open decision process	●●●●	●●●●	●●●●
Availability of information	●●●●	●●●●	●●●●●
Central bank accountability	●●●●	●●●●	●●●●
<b>Score</b>	<b>3.75</b>	<b>3.75</b>	<b>4.25</b>

## OUTLOOK & COMMENTARY

The new government of President Lula da Silva has already shown its intention to pursue continuity in monetary policy. Barring an external economic shock, major changes to the structure of Brazil's monetary policy are unlikely in the near future.

Lula's administration has announced plans to embed central bank independence in law and clarify the conditions under which its officials can be removed. However, the government has yet to make a decision on how autonomous or independent the Banco Central do Brasil (BCB) will be, and the political battle is likely to be difficult. Meanwhile, the BCB, which already has a very impressive data dissemination system via its website, is likely to continue to increase the quantity and quality of monetary information disclosed.

## EXECUTIVE SUMMARY

### 3.75 Compliance in progress

No major changes to the framework of Brazil's monetary policy have occurred in the past year. Last December's appointment of Henrique de Campos Meirelles as governor of the Banco Central do Brasil (BCB) finally put to rest widespread speculation that the left-of-centre government of Luis Inácio Lula da Silva would select a governor with a very different monetary policy stance than Meirelles' conservative predecessor. Policy continuity has apparently been preserved, as has the BCB's operational autonomy. The BCB's technical staff has also been left untouched by the new administration.

The BCB still lacks legal independence, and important governance issues—including fixed terms for central bank officials and criteria under which the government may overrule BCB decisions—remain unaddressed in legislation. Lula's administration has announced plans to grant the central bank legal independence and clarify key aspects of BCB governance, but this legislation is not expected to be debated in the Congress until next year.

The central bank has operational autonomy in the conduct of monetary policy under an inflation-targeting framework. Brazil is a subscriber to the IMF's Special Data Dissemination Standard, and the BCB meets its standards for monetary reporting. Its already impressive internet information services continue to improve, as does its extensive series of publications. In November 2002, the BCB started publishing the *Financial Stability Report*, a useful semi-annual report on the condition of the nation's financial and payments systems.

Brazil's overall score is unchanged from last year.





# CHILE



## COMPLIANCE RATINGS

<i>Monetary transparency</i>	2003	2002	2001
Clarity of roles	●●●●	●●●●	●●●●●
Open decision process	●●●●●	●●●●	●●●●●
Availability of information	●●●●	●●●●	●●●●●
Central bank accountability	●●●●	●●●●	●●●●
<b>Score</b>	<b>4.25</b>	<b>4.00</b>	<b>4.75</b>

## OUTLOOK & COMMENTARY

Chile is likely to continue to make steady progress towards meeting the highest international standards for monetary transparency. The availability of information on virtually all areas of central bank operations will continue to improve from an already high level. The country's inflation-targeting framework has helped to increase the resilience of the economy to external shocks.

The main area of weakness will likely remain the government's outstanding six billion US dollar debt with the central bank. In addition, following the 2003 leaking of privileged information to market participants, the continuous assessment of procedures to manage sensitive information will be a key priority.

## EXECUTIVE SUMMARY

### 4.25 Compliance in progress

Chile maintains a high standard of compliance with the IMF ‘Code of Good Practices on Transparency in Monetary Policy’. The Central Bank of Chile (BCC) has institutional independence and financial autonomy and enjoys full discretion over monetary, financial, and foreign exchange instruments. The BCC primary objectives, which are clearly defined in its Organic Law, are maintaining the stability of Chilean currency and financial stability. The BCC follows an inflation-targeting framework, in which the objectives, instruments and modes of accountability are clearly explained.

Chile is a subscriber to the IMF’s Special Data Dissemination Standard, and the BCC meets its standards for monetary reporting. The BCC’s timely and efficient internet information services continue to improve, as does its extensive series of publications. In 2003, the BCC began issuing weekly press releases with economic information, such as monetary aggregates and trade data, increasing the frequency and timeliness of public data releases. In addition, it has also implemented an online service to receive comments on new norms and regulations that are being debated.

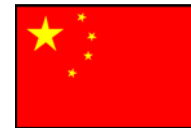
Following a 2003 incident of leaking privileged information to market stakeholders, the BCC issued a document on ‘Ethical Standards and Secure Information’. Although the Senate plays an important role in reviewing BCC’s operations, its technical capacity should be enhanced in order to increase its supervisory role. To further enhance monetary transparency in Chile, the government should reclassify its outstanding six billion US dollar debt with the BCC.

Chile’s overall score has improved from 4.00 in 2002 to 4.25.





# CHINA



## COMPLIANCE RATINGS

<i>Monetary transparency</i>	2003	2002	2001
Clarity of roles	••	••	••
Open decision process	•••	••	•••
Availability of information	••	••	••
Central bank accountability	••	••	••
<b>Score</b>	<b>2.25</b>	<b>2.00</b>	<b>2.25</b>

## OUTLOOK & COMMENTARY

One of the greatest challenges for the People's Bank of China (PBC) is to strengthen its autonomy from government control. The first year of government by the 'fourth generation' of Chinese leaders has witnessed some isolated changes to reinforce the PBC role, but more comprehensive changes are still pending.

Further advances are expected regarding the amount of publicly available information released by the PBC. Improvements in the central bank's compliance with GDDS are likely to occur, although at a slower pace than expected, while attempts to establish a Centre for Financial Statistics (CFS) could enhance the PBC's data management.

Current efforts to strengthen the banking sector by improving retail banks' badly damaged balance sheets, providing them with new capital, introducing better corporate governance, and fostering competition through more foreign bank operations will all need to be closely monitored.

## EXECUTIVE SUMMARY

### 2.25 Intent declared

The institutional framework of the People's Bank of China (PBC) is set out in the Central Bank Law of 1995, which mandates it to ensure the correct formulation and implementation of state monetary policies. Even though its policy objectives still have to be approved by the State Council, the PBC's experience and credibility in monetary policy have been growing during the past year.

The PBC Monetary Policy Committee, the body which sets interest rates and makes other important monetary policy decisions, has been more active in soliciting advice from private sector experts in recent years. Decisions taken by the Monetary Policy Committee are publicly available. In addition, the PBC has recently started to publish (in English) its quarterly Monetary Policy reports.

In April 2002, China joined the IMF General Data Dissemination System (GDDS), marking a major step towards increased transparency in the reporting of economic data. The central bank expects to enhance its compliance with GDDS requirements during 2004. At present, no information is publicly available regarding the PBC's profit and loss statements. In addition, information on expenses and revenues -- while provided to the National People's Congress -- is not released to the public domain.

Efforts are under way to recapitalise the four major state-owned commercial banks, which currently hold an estimated Rmb 2,000 billion in non-performing loans. These banks have been instructed to speed up their restructuring into shareholding companies and to prepare plans for listing at home, and possibly overseas. In addition, the State Banking Regulatory Commission (SBRC) was created in April 2003. The SBRC was set up to protect the interests of depositors and consumers through prudent and effective supervision, and so increase public confidence in the financial system. The SBRC -- which will soon have its authority enshrined in the first bank supervisory law, now being drafted -- has moved rapidly to institute a series of policies it hopes will result in a more commercial, competitive and stable banking system.

As the need for anti-money laundering efforts has become a pressing issue for the country's financial sector, new *Rules for Anti-Money Laundering by Financial Institutions* have been enacted in 2003. Further regulations are expected to be enacted in the future in order to empower the central bank to take effective action against money laundering.

China's overall score has improved from 2.00 in 2002 to 2.25.





# COLOMBIA



## COMPLIANCE RATINGS

<i>Monetary transparency</i>	2003	2002	2001
Clarity of roles	••••	••••	••••
Open decision process	••••	•••	•••
Availability of information	••••	••••	••••
Central bank accountability	••••	••••	••••
<b>Score</b>	<b>4.00</b>	<b>3.75</b>	<b>3.75</b>

## OUTLOOK & COMMENTARY

Colombia's success in fostering monetary transparency will likely remain conditional on the country's economic performance. The government has hitherto struggled to secure congressional approval for several tax increases in order to maintain fiscal deficit targets and investor confidence, following the rejection of fiscal saving measures in the referendum of November 2003. In this context, the temptation to draw on monetary and exchange rate policies might increase as the government's need to achieve its targets grows in future.

In order to allay this concern, the Bank of the Republic (BanRep) is likely to attain future improvements on monetary transparency by increasing its efforts to make available additional statements about monetary policy implementation, and how its operational relationship with the government's executive branch works in practice.



## EXECUTIVE SUMMARY

### 4.00 Compliance in progress

Monetary policy in Colombia remained transparent throughout 2003. The roles and responsibilities of the Bank of the Republic (BanRep) are clearly set out in the Central Bank Law, which provides an appropriate legal framework for establishing the central bank's institutional objectives and its relationship with the government. The BanRep has consolidated its inflation-targeting mechanism, which is complemented by clear monetary and foreign exchange intervention rules.

In early 2003, the executive made a number of calls for the BanRep to secure exchange rate competitiveness to sustain exports and overall employment. This event drew close attention to the BanRep's obligation of coordinating fiscal and monetary policies, as established in the Constitution of Colombia. Initially, there was some concern about the central bank favouring short-term economic growth over price stability and external debt sustainability, but the BanRep remained committed to its chief objectives -- giving further proof of its operational autonomy.

The BanRep observes the IMF's Special Data Dissemination Standard (SDDS) for monetary data within its responsibilities, and produces a comprehensive range of information on monetary policy and overall macroeconomic conditions.

Colombia's overall score has improved from 3.75 in 2002 to 4.00.





## CZECH REPUBLIC



### COMPLIANCE RATINGS

Monetary transparency 2003

Clarity of roles	●●●●●
Open decision process	●●●●
Availability of information	●●●●●
Central bank accountability	●●●●●
<b>Score</b>	<b>4.75</b>

### OUTLOOK & COMMENTARY

The room for further improving monetary transparency standards in the Czech Republic is limited, given the authorities' unwavering commitment to openness. Czech EU membership and preparations for EMU entry will further consolidate these already high standards.

The main potential area of concern is the high degree of *de facto* collaboration between the National Bank and the government. In spite of the benefits this has provided, it does provide potential for abuse, even if this must be deemed highly unlikely, given the high degree of commitment to integration with the West. While the system of appointments to the Bank Board has worked well, some external checks might be desirable to prevent possible abuse, should the political situation change.

## EXECUTIVE SUMMARY

### 4.75 Full compliance

After revisions to the Act on the Czech National Bank (CNB) in 2002 and legislation passed in preparation for Czech membership in the European Exchange Rate Mechanism and the Eurozone, the Czech Republic meets all of the transparency practices required by the IMF's code of good practices for monetary policy and in some cases even exceeds the standards observed by most West European and North American central banks. The general opinion within the Bank is in favour of publishing as much information as possible, a position that makes it the most transparent of the central banks of the EU accession states.

With the exception of shared responsibility in the area of setting the exchange rate regime, monetary policy is set by an independent central bank whose remit is carefully defined in law. The process of decision-making is highly transparent and the CNB offers extensive resources on its policies and deliberations on its website and through the press. This includes full availability of the minutes of the CNB Board meetings. Improvements could be made in increasing access to the process of modifying monetary policy targets and rules. The CNB remains quite committed to its practice of active interaction with fiscal authorities. While the provisions authorising CNB representatives to attend cabinet meetings and *vice versa* can potentially modify independence, they seem to also reduce confrontation and improve policy coordination. Neither party has formal voting powers at the other's meetings and the CNB insist that the practice has in no way compromised their independence.

The process of auditing has been legally enshrined with both an internal audit department and an external auditor. A great deal of information is provided to the public and the parliament at regular intervals on the financial standing of the bank.





## EGYPT



### COMPLIANCE RATINGS

<i>Monetary transparency</i>	2003	2002	2001
Clarity of roles	••	••	••
Open decision process	••	••	••
Availability of information	•••	•••	•••
Central bank accountability	•••	••	•••
<b>Score</b>	<b>2.50</b>	<b>2.25</b>	<b>2.50</b>

### OUTLOOK & COMMENTARY

The Central Bank of Egypt's institutional framework is likely to increase once the provisions of Law no. 88 of 2003, the Unified Banking Law, become fully operational. One of CBE's greatest challenges is to build its institutional capacity to make effective monetary policy decisions, improve the quality of its data, and increase the current low standards of transparency. The future establishment of the Monetary Policy Coordination Council, which will set monetary policy targets, is likely to improve the coordination between monetary and fiscal policies.

Egypt's major short-term challenge is to restore confidence in the management of the exchange rate while increasing the transparency through which it conducts its operations. The main area of weakness will likely remain the lack of credibility in some of CBE's indicators, which in turn could jeopardise policy credibility.

## EXECUTIVE SUMMARY

### 2.50 Intent declared

The institutional framework of the Central Bank of Egypt (CBE) has been strengthened since the recent enactment of Law no. 88 of 2003 of the Central Bank, Banking Sector and Monetary System (Unified Banking Law). The law is wide ranging, and also incorporates five main laws dealing with the banking sector.

During 2003, the CBE has begun to implement a new monetary policy in which inflation targeting is the final goal. In January 2003, the CBE abandoned the managed peg system and floated the pound, introducing new foreign exchange rates. Given the more active role that the CBE will have to play in monetary policy, there is a substantial need for improvements in its institutional capacity. Recent changes to the legal framework could, in the future, increase the CBE's independence, but at present there is a tendency for the president to impose his own ideas on monetary policy,

Progress on the Data Access and Transmission Activity (DATA) project continued during 2003, and commentators have suggested that the country is on course to meet the IMF's Special Data Dissemination Standard (SDDS) requirements in the near future.

The CBE's principal publications include descriptions of many indicators, including reserve money and counterpart assets, net foreign assets, exchange and interests rates, and external and domestic public debts. However, timely information on the CBE's monetary policy decisions and monetary policy overall framework are not publicly available. Moreover, efforts should be made to publish methodological notes on the CBE's statistical techniques and data compilation methods in order to allay concerns about technical interference. The CBE's audited financial statements should be made publicly available.

Egypt's overall score has improved from 2.25 in 2002 to 2.50.





# HUNGARY



## COMPLIANCE RATINGS

<i>Monetary transparency</i>	2003	2001
Clarity of roles	●●●●	●●●●
Open decision process	●●●●	●●●●
Availability of information	●●●●●	●●●●●
Central bank accountability	●●●●●	●●●●●
<b>Score</b>	<b>4.50</b>	<b>4.75</b>

## OUTLOOK & COMMENTARY

In spite of recent problems, Hungary is likely to continue its steady progress towards meeting the highest international standards for monetary transparency. The availability of information on virtually all areas of central bank operations will continue to improve from an already high level. EU accession in 2004 and anticipated EMU membership by the end of the decade will ensure convergence with ECB practices.

The main area of weakness will likely remain the lack of information on the Monetary Council's internal deliberations, which could compromise policy consistency in the event of unanticipated shifts in the balance of power. Similarly, a strong commitment to exchange rate stability in the context of a band will likely challenge the inflation targeting regime and pose a threat to policy credibility.

## EXECUTIVE SUMMARY

### 4.50 Compliance in progress

Since the adoption of the *Act LVIII on the Magyar Nemzeti Bank* (National Bank of Hungary, NBH) in 2001, Hungary has essentially adopted the transparency standards and operating principles of the European Central Bank. The only area where the NBH shares the legal responsibility for an aspect of monetary policy with the government is in setting up the basic parameters of exchange rate policy. However, this has to be done without compromising the Bank's primary objective. Day-to-day exchange rate policy is conducted fully by the Bank. Since this year, the government and the NBH also jointly set the inflation targets, which should improve policy coordination.

Hungary has made considerable progress towards fully reporting and explaining monetary policy decisions. The Bank maintains excellent public information services, and produces a variety of reports on its activities and on the broader macroeconomic context. However, the decision-making process itself remains carefully controlled and runs the risk of inconsistency if Monetary Council majorities shift. Similarly, the mechanics of economic forecasting, as well as the Bank's macroeconomic models, are not fully transparent. Information in English, while steadily improving, continues to be relatively limited in certain areas of NBH activities.

The often confrontational relations between the government and the NBH have repeatedly challenged the Bank's credibility, although efforts have begun to be made to better coordinate fiscal and monetary policy in preparation for the EMU. Further problems have arisen from the tensions caused by targeting both inflation and the exchange rate. These have been amplified by confusion over the degree of the Bank's commitment to targeting a narrower range within the official exchange rate band.

Oversight of the monetary policymaking process is well developed, with regular reporting to parliamentary committees by Bank representatives and the employment of an independent auditor. The Bank's activities are further monitored by an internal audit department and the general compliance with laws and regulations in internal operations is assessed by the State Audit Office.

Hungary's rating is revised downwards to 4.50 from 4.75 in 2001.





# INDIA



## COMPLIANCE RATINGS

<i>Fiscal transparency</i>	2003	2002	2001
Clarity of roles	●●●	●●●	●●●
Open decision process	●●●	●●●	●●
Availability of information	●●●●	●●●●	●●●●
Accountability	●●●●	●●●●	●●●●
<b>Score</b>	<b>3.50</b>	<b>3.50</b>	<b>3.25</b>

## OUTLOOK & COMMENTARY

Important bills currently under consideration in parliament are: the Banking Regulation (Amendment) Bill 2003, the Banking Regulation (Amendment) and Miscellaneous Provisions Bill 2003, and amendments to the Reserve Bank of India Act 1934. If passed the Reserve Bank of India Amendment Bill would increase the separation of debt management from the Bank's monetary policy functions.

Monetary transparency would benefit, *inter alia*, from the publication of information on monetary policy decisions. Monetary transparency would also increase if the RBI would publish an advance meeting schedule, and disseminate the minutes of its board meetings.



## EXECUTIVE SUMMARY

### 3.50 Enacted

Building on recommendations made by its advisory group, the Reserve Bank of India (RBI) has initiated a set of legal changes to reinforce the clarity of its objectives, formal independence, and the division of responsibilities between debt management and monetary policy functions. The Fiscal Responsibility and Budget Management (FRBM) Act, passed in 2003, prohibits the Bank from subscribing to primary issues of government securities effective from fiscal year 2006-07. The Reserve Bank of India RBI Amendment Bill, if passed, would increase the separation of debt management from the Bank's monetary policy functions.

India continues to provide comprehensive, high quality monetary statistics. External debt statistics are now published and India is now fully compliant with the IMF's Special Data Dissemination Standard.

With the aim of adding to transparency and stability in the market, the RBI has begun to produce an issuance calendar for government securities. The Bank issued such a calendar for 2002-03.

Meanwhile, the publication of information on monetary policy decisions and the assumptions that underpin such decisions remain weak. The RBI does not publish an advance meeting schedule, nor does it plan to disseminate the minutes, let alone the voting record, of board meetings.

India's overall score has remained at 3.50.





# INDONESIA



## COMPLIANCE RATINGS

<i>Monetary transparency</i>	2003	2002	2001
Clarity of roles	...	...	....
Open decision process	....	....	....
Availability of information	...	...	...
Central bank accountability	...	...	....
<b>Score</b>	<b>3.25</b>	<b>3.25</b>	<b>3.75</b>

## OUTLOOK & COMMENTARY

The replacement of the disgraced and once-convicted Syahril Sabirin by a new, untainted central bank governor has given Bank Indonesia a fresh start. With distractions concerning the previous governor's legal entanglements over, the Bank's staff should be able to focus on improving reporting systems and policy analysis.

Key for the future of monetary transparency in Indonesia will be the outcome of the two battles raging in the legislature over the Central Bank Law amendment and the establishment of the financial services watchdog. The last battle is unlikely to end badly, although it may be delayed still further. The fight over the Central Bank Law, however, could potentially result in institutional change that jeopardises the Bank's independence, as legislators choose to err on the side of accountability at the expense of BI's autonomy. Given the central bank's disastrous experience with corruption, many legislators believe this would not be such a bad outcome.

## EXECUTIVE SUMMARY

### 3.25 Enacted

Two key issues highlighted in last year's report dominated this year's developments in monetary transparency. The first is amending the Central Bank Act to deal with issues of central bank accountability and independence. No amendments have yet been passed, but debate now centres around the creation of a supervisory board which would monitor the activities of Bank Indonesia (BI)'s top officials. BI supports the idea in principle, but fears that the proposal could undermine central bank independence. There has also been little progress in the creation of a Financial Supervisory Authority Institution, which is supposed to take over all bank supervisory functions from the central bank. Legislators, BI, and the government are currently at an impasse debating the timeline for the establishment of the new financial watchdog.

As these two political battles raged on, there were improvements in monetary transparency at the margins. In May, the central bank welcomed a new governor, Burhanuddin Abdullah, marking the first time a BI governor has been elected by the House of Representatives -- instead of handpicked by the president -- since the Bank became independent. The fact that the new governor has a good professional reputation and has never been tainted by corruption (unlike his predecessor) has improved confidence in the Bank's among the public and investors.

Finally resolved is the question of whether the government would pay for Bank Indonesia's liquidity support during the financial crisis; the solution will be a significant challenge for the bank's balance sheet. The Bank's Investor Information and Enquiries (IIE) website has expanded, offering the public more detailed information and analysis on fiscal sustainability and the state of the banking system. In addition, plans have been announced to develop a comprehensive framework on the Bank's lender of last resort function by 2004. If followed through successfully, the framework will help the central bank avoid the extraordinary abuses and opaque transactions that have plagued it since the 1997-98 financial crisis.

Indonesia's overall score is unchanged from last year.





# ISRAEL



## COMPLIANCE RATINGS

<i>Monetary transparency</i>	2003	2002	2001
Clarity of roles	●●●●	●●●●	●●●●
Open decision process	●●●	●●●	●●●
Availability of information	●●●●	●●●●	●●●●
Accountability	●●●●	●●●●	●●●●
<b>Score</b>	<b>3.75</b>	<b>3.75</b>	<b>3.75</b>

## OUTLOOK & COMMENTARY

Amending the Central Bank Law remains the most important potential legislative change in the coming 12 months. It is thought that appointment of a new central bank governor, due in late 2004, could provide an opportunity for an initiative to revise the Central Bank Law.

In May 2004, the OECD will conclude discussions on inviting new members to the organisation. There is a high probability that Israel will be invited to join. If Israel decides to accept the invitation, the results for monetary transparency will be very positive. In addition to inclusion in comparative OECD-wide studies, Israel will second key research staff to the organisation and benefit from cross-fertilisation in this area. A host of legislative and regulatory changes, many of them directly positive for transparency, will also be required of Israel, albeit on a gradual timetable.

The tension between Bank of Israel and the Ministry of Finance looks set to continue in the near future at least.

## EXECUTIVE SUMMARY

### 3.75 Compliance in progress

The Bank of Israel (BoI) is regarded as a credible and professional organisation and meets most of the IMF's Code of Good Practices on Transparency in Monetary Policy. Israel has a sound legal framework and the Bank adequately discloses monetary policy data. The central bank has high standards in terms of quality of research and operations.

This past year the government has resuscitated the Monetary Policy Advisory Committee, a government-appointed committee comprised of leaders in the business and academic communities, to discuss policy on a regular basis. Although the committee has no power to decide policy, its deliberations can be expected to increase the transparency of the governor's decision-making process.

In October of this year, the Bank of Israel joined the Bank for International Settlements (BIS), arising from the first such invitation issued by the organisation in more than a decade. It recognises Israel's maturation in the financial and central banking spheres. Israel's monetary transparency should benefit from BIS membership, both from the opportunity to participate in BIS research studies and from the direct participation of Bank of Israel staff at the BIS on secondment.

The Bank from 2003 has more comprehensive forecasts of inflation and other macroeconomic variables, including 'fan chart' projections of inflation.

The national budget for 2004 was not a co-production of the Bank of Israel and the Ministry of Finance (MoF), due to continued tension between the BoI and the MoF.

Improvements are still needed in the publication of the transcript of question-and-answer sessions following the central bank governor's addresses to the Knesset (Israel's legislative body). The transcript is available in the minutes of the Knesset Finance Committee session, archived at the Knesset library, and only in Hebrew. Additionally, only those discussion papers written originally in English appear in English. Hebrew-language discussion papers are not at present translated.

Israel's overall has remained at 3.75.





## JORDAN



### COMPLIANCE RATINGS

<i>Monetary transparency</i>	2003	2002	2001
Clarity of roles	...	...	...
Open decision process	..	..	..
Availability of information	...	...	...
Accountability	...	...	....
<b>Score</b>	<b>2.75</b>	<b>2.75</b>	<b>3.00</b>

### OUTLOOK & COMMENTARY

Improvements are underway that contribute to monetary transparency in Jordan. The Central Bank of Jordan (CBJ) is implementing a number of changes in order to comply with the IMF's Special Data Dissemination Standard. It plans, for example, to establish a new unit for balance-of-payments compilation in the near future. It is also improving the regulation and supervision of the banking system. The CBJ also plans to start publishing its statistics according to the fifth edition of the Balance of Payments Manual (BPM5) and the international reserve template by March 2004.

Jordan would particularly benefit from increasing the transparency of its monetary policy-making process, and from strengthening its provisions for public accountability. The publication of advance release calendars would also improve transparency. However, there is no indication that these improvements will be made in the near future.

## EXECUTIVE SUMMARY

### 2.75 Enacted

Jordan has made further progress towards adopting the IMF standards on good practices for monetary transparency. The Central Bank of Jordan (CBJ) continues to consolidate its independence and its reputation for effective monetary management. Meanwhile, improvements have been made to the framework for economic and monetary data, helped by changes in the Department of Statistics. A new Statistics Division was established in late 2002 and began working actively in 2003 in accordance with recommendations in the IMF Report on the Observance of Standards and Codes (IMF Government Financial Statistics 2001). The CBJ is still aiming to meet the requirements of the IMF's Special Data Dissemination Standard within the next two to three years, and is currently implementing the recommendations made in the recent IMF ROSC, Data Module report as part of this process.

There is still a lack of transparency in the process for formulating monetary policy and its framework and targets. Although transparency of monetary policy has been boosted by the regular disclosure of communications to the IMF, public scrutiny of monetary policy remains weak, as do provisions for public accountability.

The Bank has established a new balance of payments department and it plans to create a new unit for balance-of-payments compilation in the near future. The Electronic Payment System has now been fully implemented.

Jordan's overall score is unchanged from last year.





# MALAYSIA



## COMPLIANCE RATINGS

<i>Monetary transparency</i>	2003	2002	2001
Clarity of roles	•••	••	•••
Open decision process	•••	••	••
Availability of information	••••	••••	••••
Central bank accountability	•••	•••	••
<b>Score</b>	<b>3.25</b>	<b>2.75</b>	<b>2.75</b>

## OUTLOOK & COMMENTARY

Monetary policy transparency has gradually increased as government officials have recognised that greater clarity is needed in order to fend off pervasive economic difficulties, as experienced during the 1997-98 Asian financial crisis. In this context, the Bank Negara Malaysia (BNM) has increased its efforts to make available additional statements about monetary policy and financial data. Future progress should be made in providing more details on policy implementation and the BNM's objectives and responsibilities, perhaps by clearly distinguishing monetary targets regularly.

The main weakness will likely remain the lack of clarity with regard to policy coordination between the central bank and other government institutions. In order to allay this concern, additional information should be provided on the BNM Management Committee's tasks by making publicly available its composition and the minutes/voting records of its meetings.



## EXECUTIVE SUMMARY

### 3.25 Enacted

The Bank Negara Malaysia (BNM) maintains good and improving public information services, and continues to meet the requirements of the IMF's Special Data Dissemination Standard (SDDS). The central bank now has in place a structure of three technical and informative publications: the *Annual Report*, the *Quarterly Bulletin*, and the *Monthly Statistical Bulletin*.

However, significant opacity remains in the mechanisms and targets of monetary policy, since the BNM does not have a single-measure target for monetary policy. In addition, the lack of statutory independence for the BNM continues to raise doubts about its operational independence, particularly in times of crisis. The conditions under which the government can overrule monetary policy decisions are not specified in legislation, and the precise nature of policy coordination between the central bank and the Ministry of Finance is imprecise.

The new *Monetary Policy Statement*, a publication aimed to explain the considerations underpinning BNM's decisions, is a welcome development. Nevertheless, the publication would benefit from a more detailed treatment of monetary policy objectives and implementation, and it should be readily available for public consultation.

Public accountability and accountability to parliament remains weak as a result of the highly centralised political system, but the central bank's initiative to discuss monetary policy in public consultations is a positive step towards greater monetary policy transparency.

Malaysia's overall score has improved from 2.75 in 2002 to 3.25.





# MEXICO



## COMPLIANCE RATINGS

<i>Monetary transparency</i>	2003	2001
Clarity of roles	●●●●	●●●●
Open decision process	●●●●	●●●●
Availability of information	●●●●●	●●●●
Central bank accountability	●●●●	●●●●
<b>Score</b>	<b>4.25</b>	<b>4.00</b>

## OUTLOOK & COMMENTARY

The Central Bank of Mexico (Banxico) increased the transparency of its monetary policy practices from an already high standard. In 2003, the central bank made several efforts to provide additional information on how monetary policy is implemented in order to attain its inflation target, while data quality and availability were consistently upgraded.

Monetary transparency in Mexico will be increased in future if Banxico decides to pursue inflation targeting by fixing a headline interest rate. The *corto* mechanism has hitherto remained more complex than the instrument(s) used by other countries that also operate under an inflation-targeting framework.

## EXECUTIVE SUMMARY

### 4.25 Compliance in progress

The Bank of Mexico (Banxico) has maintained its high standards of monetary transparency. The Law of the Bank of Mexico clearly sets out the objectives and institutional framework of monetary policy. Banxico publicly discloses and explains how monetary policy instruments are used in a comprehensive range of reports that are available on its website. Further, in compliance with the Federal Law on Transparency and Access to Public Information, the central bank incorporates all changes in monetary policy in periodic publications that are released according to a calendar of announcements posted on its website.

Banxico observes the IMF's Special Data Dissemination Standard (SDDS) requirements in all categories within the scope of its responsibilities.

In order to enhance compliance with the IMF monetary transparency code, Banxico should make available more details on the Board of Governors' deliberations -- such as minutes and voting records -- in order to provide broader information on the assumptions and economic conditions that are being considered when reaching monetary policy decisions.

Mexico's overall score has improved from 4.00 in 2001 to 4.25.





# PAKISTAN



## COMPLIANCE RATINGS

<i>Monetary transparency</i>	2003	2002	2001
Clarity of roles	●●●	●●	●●
Open decision process	●●	●●	●●
Availability of information	●●	●●	●●●
Central bank accountability	●●●	●●	●●●
<b>Score</b>	<b>2.50</b>	<b>2.00</b>	<b>2.50</b>

## OUTLOOK & COMMENTARY

The State Bank of Pakistan has made a strong commitment to monetary transparency and the ongoing reforms look set to continue, not least because of the imperatives created by Pakistan's GDDS membership. The authorities have undertaken to reform data collection and dissemination to levels compatible with the IMF requirements.

Some doubts still remain as to the scale and pace of institutional reform. Relations between the central bank and the government remain close and political pressures may yet adversely affect SBP autonomy. Although a great deal has been done to enhance the statutory independence of the Bank, further amendments to the SBP would be necessary to ensure that reversals due to political interference becomes impossible. Similarly, the role of coordination bodies between the government and the Bank should be more explicitly defined.

## EXECUTIVE SUMMARY

### 2.50 Intent declared

The State Bank of Pakistan (SBP) remains fully committed to the series of central bank reforms which began in 1994 by granting the autonomy in its operations. A major milestone on the road to greater transparency was Pakistan's admission to the General Data Dissemination Standard (GDDS) of the International Monetary Fund (IMF) in 2003. Pakistan has now formally undertaken binding commitments to bring its financial statistics in line with international standards.

The SBP's autonomy has been boosted by the freedom given to it in the conduct of monetary policy and the adoption of formal rules governing the dismissal of the governor. While the Bank is committed to operating as a fully autonomous body, relations with the government remain close and, in some cases, ill-defined. In particular, the activities of policy coordination boards remain untransparent. Moreover, a legal provision remains permitting the government to overrule the Bank.

Monetary policy is based in publicly announced money supply targets, although their determination is somewhat opaque. The exchange rate floats with minimal controls but there are periodic interventions designed to prevent major fluctuations.

The SBP has an ambitious publications programme and a highly informative website. However, consultations with the public remain limited. Good relations have been established with the private sector but there are no formal hearings about reforms.

Well-defined and legally codified procedures exist for auditing the SBP's books and the internal audit function in particular has been enhanced in recent years.

Pakistan's rating is increased to 2.50 from 2.00 last year.





# PERU



## COMPLIANCE RATINGS

<i>Monetary transparency</i>	2003	2002	2001
Clarity of roles	●●●●	●●●●	●●●●●
Open decision process	●●●●	●●●●	●●●●
Availability of information	●●●●	●●●●	●●●●
Central bank accountability	●●●●	●●●●	●●●●
<b>Score</b>	<b>4.00</b>	<b>4.00</b>	<b>4.25</b>

## OUTLOOK & COMMENTARY

Peru will likely improve monetary policy transparency from an already high standard. The Central Reserve Bank of Peru (BCRP) has sustained its comprehensive provision of data and overall information on monetary policy in order to consolidate the effective operation of its inflation-targeting framework.

Medium-term progress in having an open process for reporting monetary policy decisions should be attained once an overall plan for BCRP internal restructuring is developed. A number of international experts and officials from other central banks are being invited to visit Lima in 2004 to provide technical assistance. In this context, monetary transparency will increase as the BCRP's internal managerial ability improves. Nevertheless, the weakness of having concurrent terms of appointment for BCRP board members and the executive will likely remain.

## EXECUTIVE SUMMARY

### 4.00 Compliance in progress

The Central Reserve Bank of Peru (BCRP) has sustained its high standards of monetary policy transparency in 2003. The consolidation of the inflation-targeting framework, implemented through open market and discount window operations (and the availability of a reference short-term interest rate), has served to consolidate and provide further information on how the BCRP's monetary transmission mechanism operates.

As part of its commitment to the IMF's Special Data Dissemination Standard (SDDS), the BCRP continues to publish data that comply with SDDS coverage, periodicity, timeliness and access requirements. In addition, the Monthly, Weekly and Inflation Reports provide a comprehensive source of information that gives details on changes in monetary policy.

The existing rules for appointments to the BCRP Board of Directors remain a potential drawback for its effective operational autonomy. Although the problems related to the resignation of BCRP President Richard Webb were primarily related to internal conflicts of administration, this event has drawn attention back to the vulnerability problem of BCRP officials throughout political cycles. In this context, monetary transparency would be enhanced if the tenure of board members would not coincide with the presidential and legislative terms, and if the minutes of board meetings were publicly disclosed.

Peru's overall score is unchanged from last year.





# THE PHILIPPINES



## COMPLIANCE RATINGS

<i>Monetary transparency</i>	2003	2002	2001
Clarity of roles	●●●●	●●●●	●●●●
Open decision process	●●●●	●●●	●●●●
Availability of information	●●●●	●●●●	●●●●
Central bank accountability	●●●	●●●	●●●●
<b>Score</b>	<b>3.75</b>	<b>3.50</b>	<b>4.00</b>

## OUTLOOK & COMMENTARY

The Bangko Sentral ng Pilipinas (BSP) has continued to implement measures aimed at increasing monetary transparency, which have also fostered the effective implementation of its inflation-targeting framework. In addition, the BSP has attained progress in correcting the deficiencies of the statistical techniques and compilation methods used to collate balance of payments data.

Governor Rafael Buenaventura's pending suspension has underlined the need to remove the uncertainty over the BSP's regulatory functions. It has also highlighted the sway of legislative inertia, which has delayed reforms to the 1993 Central Bank Act that would provide adequate protection to central bank employees while performing banking-supervision duties. This weakness will likely remain if Congress does not approve the amendments. Nevertheless, overall monetary transparency should be enhanced once the voting records and more detailed minutes of board meetings are publicly available.



## EXECUTIVE SUMMARY

### 3.75 Compliance in progress

The Central Bank of the Republic of the Philippines (BSP) has sustained its efforts to increase monetary policy transparency. The Philippines remain committed to the IMF's Special Data Dissemination Standard (SDDS), and the BSP observes the SDDS requirements in all categories within the scope of its responsibilities.

The BSP's operational autonomy has remained strong. Despite setbacks in the government's ability to reduce its fiscal deficit, the BSP's appropriate transition plan -- in addition to subdued demand and receding cost-side pressures -- has helped to consolidate the inflation-targeting framework. Further, the BSP makes available a wealth of information on inflation targeting that, in addition to the broad consultation process to get regional feedback on monetary policy implementation, has increased public awareness of the BSP's responsibilities while providing a benchmark to assess its performance.

Substantial progress was achieved in passing regulations that have addressed the main legal deficiencies in the Philippine anti-money laundering regime and the Securities and Exchange Commission rules on commercial banking supervision. However, additional changes should be made to the New Central Bank Act in order to provide clearer instructions and safeguards for the removal of BSP officials, in particular when exercising supervisory duties. These amendments, together with greater disclosure of the central bank's supervisory faculties and the BSP Monetary Board's voting records, should improve overall monetary transparency in future.

The Philippines' overall score has improved from 3.50 in 2002 to 3.75.





## POLAND



### COMPLIANCE RATINGS

<i>Monetary transparency</i>	2003	2002	2001
Clarity of roles	●●●●	●●●●	●●●●
Open decision process	●●●●	●●●●	●●●●
Availability of information	●●●●●	●●●●●	●●●●●
Central bank accountability	●●●●	●●●	●●●
<b>Score</b>	<b>4.25</b>	<b>4.00</b>	<b>4.00</b>

### OUTLOOK & COMMENTARY

Transparency standards are currently being systematically improved with the revision of the Act on the National Bank of Poland in preparation for EU membership next year. The Bank will be required to appoint an external auditor and the provision allowing a non-voting representative of the Council of Ministers to attend the Monetary Policy Council meetings will be eliminated. Compliance with high transparency standards will be ensured by the expected adoption of the euro in 2009.

The politicisation of the appointment process to the Monetary Policy Council will pose some risk of short-term instability, but the commitment to monetary orthodoxy is widespread enough to rule out any major policy change. Urgently needed fiscal consolidation may increase political pressure on the bank. It is unlikely, however, that the bank's standing would be compromised even if the prospect of especially short-term monetary instability exists.

## EXECUTIVE SUMMARY

### 4.25 Compliance in progress

The National Bank of Poland (NBP) meets nearly all of the international best practice standards for monetary policy transparency. This process has been accelerated and consolidated by the need to meet EU entry requirements and to converge with the standards of the European Central Bank (ECB). Revisions to the NBP Act currently under discussion – and to be adopted by early 2004 – include the appointment of an external auditor and the abolition of the right of a non-voting Council of Ministers representative to attend Monetary Policy Council meetings. The Bank has already published its analytical model, along with a revised version this year, as well as adopting a new practice of publishing quarterly macroeconomic forecasts.

The NBP maintains an exemplary website with a wealth of information on all aspects of monetary policy available in Polish and English alike. The site reflects the Bank's commitment to full and timely dissemination of information pertaining to its activities.

The main institutional problem with monetary policy making has to do with the politicized nature of the appointment process to the Monetary Policy Council, all of whose members are replaced simultaneously. The ability of individual Council members to express their views to the press has been a source of short-term exchange rate fluctuations, an area where the publication of the full minutes of Council meetings might make for more stability and consistency.

Poland's overall rating increases to 4.25 from 4.0 last year.





# RUSSIAN FEDERATION



## COMPLIANCE RATINGS

<i>Monetary transparency</i>	2003	2002	2001
Clarity of roles	●●●	●●	●●●
Open decision process	●●●	●●	●●
Availability of information	●●●●	●●	●●●
Central bank accountability	●●●	●●●	●●●●
<b>Score</b>	<b>3.25</b>	<b>2.25</b>	<b>3.0</b>

## OUTLOOK & COMMENTARY

The Central Bank of Russia has established a strong reputation for relative independence and competence. Given its commitment to monetary stability and full compliance with international norms, gradual convergence with Western European norms is likely to continue.

The CBR's independence from political influence remains untested at a time when the strong economic performance of Russia has minimized political pressures on it. It is conceivable that the Bank would succumb to external pressure should the economic situation dramatically change. The CBR's involvement in the banking sector, most notably through its control of *Sberbank* remains a serious anomaly of the Russian system and an obstacle to normal banking sector growth. Immediate divestment appears unlikely.

## EXECUTIVE SUMMARY

### 3.25 Enacted

The adoption of a new Central Bank Law last year has considerably enhanced the autonomy of the Central Bank of the Russian Federation (CBR) which is now legally defined as an independent central bank. A potential problem is posed by the long history of a dominant and interfering government which still appears to linger on in informal government pressures on the Bank. Thus far close collaboration with the government does not appear to have significantly compromised the bank's independence, but significant pressures in this respect have been absent due to the country's strong economic performance.

The CBR is fully committed to presenting its monetary data in conformity with the IMF's Special Data Dissemination Standard (SDDS) and CBR data dissemination now meets virtually all SDDS requirements with international reserve liquidity the most recent addition. The Bank has greatly increased the availability of timely information on various aspects of its operations and now boasts one of the most comprehensive and informative websites operated by an emerging market country.

The Bank provides a great deal of information on its monetary policy targets. The monetary policy guidelines now even include different scenarios. However, the implementation of the policy is compromised by potential incompatibilities between the inflation target and a managed floating exchange rate. In addition, monetary policy efficiency is compromised to a degree by a limited number of instruments available to the Bank. This problem is particularly significant at a time when the high oil price has created the need to sterilize large amounts of liquidity.

The CBR's majority stake in the country's dominant bank, *Sberbank*, constitutes a major structural problem in the banking sector. In general, supervision of the sector has improved and it has become significantly more stable, although considerable doubts remain about its resilience in the face of a major crisis.

Russia's overall score increases to 3.25 from 2.25 last year.





## REPUBLIC OF SOUTH AFRICA



### COMPLIANCE RATINGS

<i>Monetary transparency</i>	2003	2002	2001
Clarity of roles	●●●●	●●●●	●●●●
Open decision process	●●●●●	●●●●●	●●●●●
Availability of information	●●●●	●●●●	●●●●
Central bank accountability	●●●●	●●●●	●●●●
<b>Score</b>	<b>4.25</b>	<b>4.25</b>	<b>4.25</b>

### OUTLOOK & COMMENTARY

South Africa looks set to continue its steady progress towards the highest international standards of monetary transparency. More is being added to the Reserve Bank's already extensive list of publications. The Bank is fully committed to adopting the most up-to-date international accounting standards and looks set to remain actively involved in banking supervision.

The close consultative relationship and reporting requirements to the National Treasury constitute a potential threat to central bank independence, although concrete challenges in this area remain unlikely. It would be helpful to have formal rules governing the dismissal of the governor. Similarly, more should be done to contractualise the relationship between the Reserve Bank and the government.

## EXECUTIVE SUMMARY

### 4.25 Compliance in progress

The South African Reserve Bank (SARB) continues to make gradual progress towards full compliance with the IMF codes on monetary transparency. The Bank is operationally independent from the government. Price stability remains the primary objective of monetary policy. The statements issued by the Monetary Policy Committee have been further refined to explain monetary policy decisions more clearly in the context of the inflation targeting framework and in a more forward-looking way.

The SARB complies with the IMF standards for data dissemination and disseminates a wide range of timely information on the analytical accounts of the bank. The Bank has incorporated the latest data dissemination standards of the IMF and complied with them within the prescribed transition period. The Bank has further implemented the requirements of the IMF's GFSM (2001) in the statistical tables on Government Finance. It continues to provide excellent public information services and is subject to rigorous independent audit.

Further progress has been made by the SARB this year in other areas of monetary policy formulation. The meetings of the Monetary Policy Committee have become more regular. Accounting standards have been improved and the availability of information on the Bank's policy towards banks in financial distress has become clearer. The Bank has adopted a new framework for dealing with banks in distress.

There remains room for further improvement in transparency in connection with the agency roles performed by the SARB on behalf of the government. Similarly, the contents of letters and policy documentation between the SARB and the treasury regarding the coordination of monetary and fiscal policy are still not publicised. More public information could be provided on the Reserve Bank's econometric model and its inflation forecast.

South Africa's overall rating remains unchanged from last year.





# SRI LANKA



## COMPLIANCE RATINGS

<i>Monetary transparency</i>	<i>2003</i>	<i>2002</i>	<i>2001</i>
Clarity of roles	••••	••••	•••
Open decision process	•••	••	••
Availability of information	••••	•••	•••
Accountability	••	••	••
<b>Score</b>	<b>3.25</b>	<b>2.75</b>	<b>2.50</b>

## OUTLOOK & COMMENTARY

Sri Lanka looks likely to continue to improve its standards of monetary transparency. Progress has been made over the past year with amendments to the Monetary Law Act. The Central Bank of Sri Lanka (CBSL)'s powers of regulation should improve as a result of the amendments, as should its efficiency due to a refocusing of its objectives. The central bank has continued its modernisation process. It now subscribes to International Accounting Standards. Transparency should increase as a result of the increased quantity of information available to the public: targets are now disclosed, for example. Legislative and administrative changes to monitor over the next year include: the enactment of the Public Debt Management Law; the establishment of a Public Debt Management Office; the enactment of a new Banking Act; and the enactment of a new Monetary Law.

Certain reforms may be affected by the recent political instability, although both the president's party and the party of the prime minister are committed to economic reform, so any further political instability is more likely to have only an indirect effect on economic reforms and progress in general, through a general climate of uncertainty, and the consequences for investor and business confidence.



## EXECUTIVE SUMMARY

### 3.25 Enacted

The government continues to be committed to significant economic reforms, including reducing public sector deficits, and a political settlement to the country's long-running internal conflict. It may now be a little more cautious in pushing through some of the more controversial reforms, given the political crisis that broke in November 2003 when, while the prime minister was abroad, the president (from an opposing political party) suspended parliament and took control of three ministries. Following talks upon the return of the prime minister, parliament resumed, though the tension continues. Further political instability is possible.

Monetary policy has been determined primarily by the budget deficit over the past year. Monetary policy continues to focus on: providing adequate liquidity to support economic recovery; containing monetary expansion; and price stability. The central bank continues to place increasing reliance on open market operations in monetary management. The floating exchange rate continues.

The central bank has continued to work hard to improve clarity in monetary policy, both in respect of monetary objectives and the decision-making structure through which policy is made. Amendments to the legislative framework within which the CBSL operates have been passed. A number of reforms to the Bank are underway though the effectiveness of many of the reform measures are difficult to evaluate at this early stage. A new Banking Act is expected to be enacted in 2004.

The Monetary Law Act (MLA) governing the central bank was amended in December 2002 to enable the Bank to focus more clearly on its core objectives of economic and price stability and financial system stability, to improve the flexibility of the Bank's monetary policy and exchange rate policy and to strengthen its regulatory powers. The payments and settlements system was also improved; a Real Time Gross Settlement (RTGS) System and SSS System was introduced. Finally the amendments helped increase the expertise and efficiency of the Bank by expanding its governing board and expanding the Bank's powers of delegation. The board still does not publish the minutes of its meetings. The Monetary Law Act (MLA) contains no provisions relating to reporting by CBSL officials before any designated public authority.

To further increase transparency in monetary management, the overall monetary policy framework and projections are now announced to the market and made available on the Bank's website. The central bank now releases to the public every month a Monetary Policy Review that reviews general economic developments and their bearing on the monetary policy of the Bank. This review is not published on the web in a timely manner, however. The central bank has also begun to publish bankwise interest rates and charges. Other notable progress over the past year includes: the CBSL now subscribes to International Accounting Standards -- hitherto it subscribed only to Sri Lankan Accounting Standards; in August 2003 an automated accounting system was introduced, as part of the modernisation project underway at the central bank; the central bank has announced that it will apply for a sovereign debt rating to help Sri Lanka attract overseas investment; a Contributory Pension Fund Bill was passed February 2003; and work is underway on an anti-money laundering law.

Sri Lanka's overall score has improved from 2.75 in 2002 to 3.25.





## TAIWAN (REPUBLIC OF CHINA)



### COMPLIANCE RATINGS

<i>Monetary transparency</i>	2003	2002	2001
Clarity of roles	●●●	●●●	●●●●
Open decision process	●●●●	●●●●	●●●●
Availability of information	●●●●	●●●	●●●
Central bank accountability	●●●●	●●●●	●●●
<b>Score</b>	<b>3.75</b>	<b>3.50</b>	<b>3.50</b>

### OUTLOOK & COMMENTARY

Two major reforms are likely to improve monetary and financial transparency in Taiwan in the near future: the adoption of a new CBC Act and the creation of a unified Financial Supervision Authority which will combine the functions of all existing supervisors.

The new CBC Act is designed to make three main improvements to the existing legal framework: (i) To replace the *ex officio* seats on the current BoD with seven full-time board members. (ii) To establish a new Monetary Consultative Committee composed of representatives from industry, other social groups, and of policy experts. (iii) To elevate ensuring the sound operation of payment system to a central goal of CBC policy. While it may reduce efficiency by weakening the relative position of the governor, it will significantly modernise the present legislation by creating a formal statutory basis for key elements of monetary transparency.

## EXECUTIVE SUMMARY

### 3.75 Compliance in progress

The Central Bank of China operates as a highly independent and transparent central bank. However, the outdated Central Bank of China Act, which was most recently thoroughly revised in 1979, constitutes a problem in as much as its language does not always conform to modern standards of monetary transparency. As a result, many important provisions, while they may be observed in practice, do not have an explicit legal basis. Issues in point include the judicial independence of the Bank and the procedures governing the dismissal of the governor.

The Bank operates a very transparent monetary policy regime based on publicly announced M2 targets. However, the system of exchange rate management appears to be less transparent. In spite of the formal commitment to a floating rate, the Bank appears to intervene periodically and has, in fact, been quite successful in maintaining exchange rate stability.

The CBC produces a wide range of periodic publications on various aspects of monetary policy. The Bank's Board of Supervisors conducts and disseminates an annual audit of the balance sheet and financial statement. The Ministry of Audit also carries out independent audits of government activities. In spite of not being an IMF member, the CBC largely conform to the SDDS practices in disseminating financial statistics.

Delays in the adoption of the new CBC Act have slowed down significant further improvements in transparency standards. However, banking supervision will benefit from the decision to set up a unified national Financial Supervision Council.

Taiwan's overall score increases to 3.75 from 3.5 last year.





# THAILAND



## COMPLIANCE RATINGS

<i>Monetary transparency</i>	2003	2002	2001
Clarity of roles	••••	••	•••
Open decision process	•••	••	•••
Availability of information	•••••	•••••	•••••
Central bank accountability	••	••	•••
<b>Score</b>	<b>3.50</b>	<b>2.75</b>	<b>3.50</b>

## OUTLOOK & COMMENTARY

The Bank of Thailand (BoT) has embarked on the process of adopting the new objectives and institutional framework set out in pending amendments to the 1942 BoT Act in order to revamp monetary transparency while fending off legislative inertia. In the short term, these actions will reinforce public perceptions about the central bank's political neutrality and consolidate its *de facto* operational independence to implement monetary policy. Nevertheless, parliamentary approval of the amended BoT Act is needed to bring statutory clarity to all these improvements.

Weaknesses will likely remain in those areas where legislation is a stronger requirement to guarantee clarity and enforcement, such as central bank accountability and regulatory responsibility. However, the BoT's resolve to comply with international transparency guidelines may influence parliament to approve reforms soon.

## EXECUTIVE SUMMARY

### 3.50 Enacted

Thailand has made significant progress overhauling its monetary transparency practices to remedy shortcomings exposed by the regional financial crisis in 1997-98. The Bank of Thailand (BoT) has developed good public information services and continues to meet the requirements of the IMF's Special Data Dissemination Standard.

Pending legislation can be expected to bring statutory force to a new definition of the BoT's core monetary objectives and assert the central bank's independence. Nevertheless, the BoT has not waited for the legislation to be approved; it has adopted the definition of objectives in the draft legislation, reorganised itself around those objectives, and operated independently. The BoT is therefore in the process of building transparency and credibility by its actions. These steps include adopting an explicit inflation target and changing its policymaking arm -- the Monetary Policy Committee (MPC) -- to include external experts and internal professional experts as full members.

The BoT has stated its intention to comply with transparency guidelines and has made considerable progress bringing its practices up to international standards. In this context, the BoT envisages inviting an IMF mission to review its observance of transparency standards and codes after one or two years of further progress.

Thailand's overall score has improved from 2.75 in 2002 to 3.50.





# TURKEY



## COMPLIANCE RATINGS

<i>Monetary transparency</i>	2003	2002	2001
Clarity of roles	●●●●	●●●●	●●●●
Open decision process	●●●●	●●●●	●●●
Availability of information	●●●●	●●●●	●●●●
Accountability	●●●●	●●●●	●●●●
<b>Score</b>	<b>4.00</b>	<b>4.00</b>	<b>3.75</b>

## OUTLOOK & COMMENTARY

Turkey looks likely to continue to improve its already high standards of monetary transparency, particularly in relation to the publication of information and data, which is currently very comprehensive. Communication from the Central Bank would benefit from being more regular and scheduled however. Turkey now has another year of experience with the current monetary policy model and Central Bank independence, and the new arrangements seem to be functioning well. The new government looks likely to continue to respect the market and the independence of the Bank. The new internal audit department has now been established and should improve the internal auditing system.

Informal inflation-targeting has been working well, though the date for the introduction of formal inflation-targeting has yet to be decided. There is still no regular schedule for Monetary Policy Committee meetings and the publication of minutes, though this may be introduced following the adoption of formal inflation-targeting.

Communication from the Central Bank would benefit from being more regular and scheduled. The main area of weakness will likely remain the lack of information of the Monetary Council's internal deliberations, which can compromise policy consistency in the event of unanticipated shifts in the balance of power. Similarly, a strong commitment to exchange rate stability in the context of a band may challenge the inflation targeting regime and potentially jeopardize policy credibility.

## EXECUTIVE SUMMARY

### 4.00 Compliance in progress

The government and the Central Bank of Turkey (CBT) share responsibility for setting overall targets and strategy (the CBT decides ultimately on strategy). The CBT's new Monetary Policy Committee (MPC) is given *de jure* responsibility in drawing up monetary policy. This division of responsibilities has been tested for more than two years now and is working satisfactorily. Turkey now has another year of experience with the current monetary policy model and CBT independence, and the new arrangements seem to be functioning well. Under current law, the government has a limited ability to impact the Bank. The new government has proved that it values the market -- there was some concern over this initially -- and is unlikely to pass any laws challenging the Bank's independence.

The openness of the policy-making process, which has been developing since the 2001 amendments to the Central Bank Law took effect, continues to improve. Informal inflation targeting is in place, however no date has yet been set for the introduction of formal inflation targeting. Steps that would help clarify the policy-making process include the announcement of a regular schedule for MPC meetings and the publication of minutes. The composition of the MPC, which is strongly dominated by bank officials, might also be reviewed.

The CBT is externally audited, and reports regularly to the authorities on the basis of clear provisions. A project to further improve internal auditing has now been completed. A new internal audit department has been established with a clearly defined mandate set forth in a regulation. The scope of the audit mentioned in this regulation covers all the functions and activities of the Bank, including the assessment of risk management and the efficiency of the internal control and management processes. CBT staff are well trained and familiar with international norms and practices. There are clear rules governing standards of conduct for employees.

The CBT is responsive, transparent, and communicates well. It produces very comprehensive data and information on its activities and complies with IMF data dissemination standards. However, communication would benefit from being more regular and scheduled. Over the past year the CBT has collaborated with various CBTs around the world in order to exchange expertise. The CBT has since made a concerted effort to conform to international best practice. As a result, indicators published by the CBT have proliferated. The CBT website is very comprehensive and user friendly with ever-increasing data made available on it. Over the past year, the CBT has recruited and trained new staff, and has improved its models.

The BRSA's (Banking Regulation and Supervision Agency) financial and operational independence is being strengthened. The BRSA is to have a separate budget submitted directly to parliament under the new Public Financial Management and Control Law, approved by parliament December 11 2003.

Turkey's overall score has remained at 4.00.





# VENEZUELA



## COMPLIANCE RATINGS

<i>Monetary transparency</i>	2003	2002	2001
Clarity of roles	••	••	•••
Open decision process	••	••	••
Availability of information	•••	•••	••
Central bank accountability	•••	•••	•••
<b>Score</b>	<b>2.50</b>	<b>2.50</b>	<b>2.50</b>

## OUTLOOK & COMMENTARY

The economic recession has created an environment where the government has put additional pressure on the Central Bank of Venezuela (BCV) to prioritise broader macroeconomic objectives over price stabilisation. However, more detrimental to monetary transparency is the fact that the Chavez administration has used monetary policy instruments to attain fiscal policy objectives that appear to be more in line with the government's political agenda rather than economic concerns. An important test for the BCV's *de facto* operational autonomy will be whether it provides President Chavez with disbursements from international reserves that he has requested to finance agricultural programmes.

Short-term improvements should be attained in overall data availability, quality improvements, and providing information on statistical techniques and data compilation methods.



## EXECUTIVE SUMMARY

### 2.50 Intent declared

In 2003, the Central Bank of Venezuela (BCV) continued to generate substantial doubts about its operational autonomy. The introduction of controls on foreign exchange operations has substantially undermined the central bank's capacity to implement monetary policy. In this context, the government's influence over monetary policy instruments in order to attain fiscal objectives has been evident in the last twelve months.

Monetary transparency would be greatly enhanced if the BCV would provide concise information on its monetary policy framework, the instruments used to attain objectives, and how these are integrated with fiscal policy goals into the macroeconomic coordination directives mandated by the constitution.

The BCV publishes a number of periodic reports that include descriptions of monetary policy decisions and the financial operations undertaken, information on financial markets, monetary aggregates, central government public finances, and legislation. Nevertheless, efforts should be made to publish methodological notes on the central bank's statistical techniques and data compilation methods in order to allay concerns about technical interference. The BCV's audited financial statements should be made publicly available.

Venezuela's overall score is unchanged from last year.

